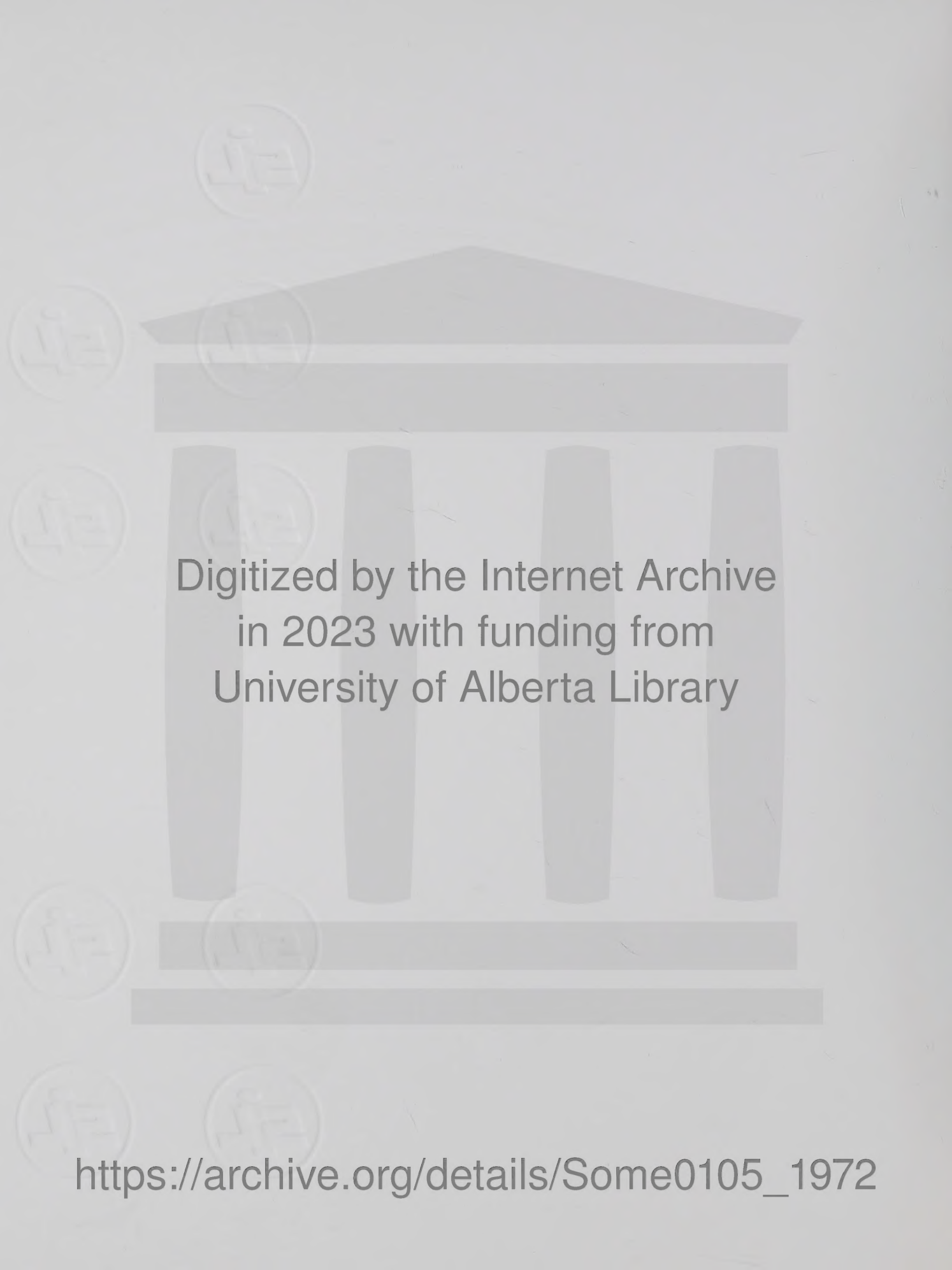




SOMERVILLE INDUSTRIES LIMITED

1972 annual report





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Directors

J. G. Church
G. E. Creber
I. A. MacDonald
A. B. Van der Ende
W. Garfield Weston
T. E. White

Officers

J. G. Church	Chairman and President
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer

Management Committees

Head Office:

J. G. Church	Chairman
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

Packaging:

I. A. MacDonald	Chairman
L. A. Biddie	General Manager, Canadian Folding Cartons Division
G. J. Deignan	General Manager, Consolith Division
K. W. Keene	General Manager, London Division & Winnipeg

Special Products:

J. G. Church	Chairman
J. C. Bacon	General Manager, Automotive Products Division
B. A. Cooper	General Manager, Plastics Division
B. L. Morin	General Manager, Games Division
J. O. Watt	General Manager, Merchandising Services Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

TO THE SHAREHOLDERS:

Consolidated net sales and profits for the year 1972 were improved over the preceding twelve months by \$1,644,000 and \$119,000, respectively.

Sales totalled \$47,467,000, and profits after taxes reached \$1,930,000. With two exceptions, all Divisions of the Company had an increased sales performance. The Automotive and Games Divisions were major contributors to the profit improvement.

Capital expenditures for the year were low, at \$542,000, due to the deferred purchase of certain major equipment replacements, pending completion of comprehensive studies of alternate production methods. As a result of these deferrals, proposed capital expenditure commitments in 1973 are expected to total \$2,580,000 in all Divisions, with further expenditures forecast for 1974.

On April 1, 1973, Somerville issued 8½ % Sinking Fund Debentures totalling \$8,000,000, to mature on April 1, 1993. The proceeds of this issue will be used to retire a previously incurred loan of \$5,000,000 from an affiliated company and to finance the heavy capital expenditures in 1973 and 1974.

T. E. White has been elected to the Company's Board of Directors. Mr. White, who joined Somerville in 1959, has been a member of the Corporate Management Committee since his appointment as Industrial and Public Relations Manager in 1965.

The Company has forecast further advances in sales and profits for 1973, and these improvements, in the main, are expected to occur in all Divisions. As always, attainment of these objectives will depend upon the continuing cooperation and support of every member of the Somerville staff. It is a pleasure to thank formally all employees who contributed to the successful performance of the enterprise during the year past. Their combined talents will certainly ensure continuing future success.

Chairman and President

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1972

(in thousands of dollars)

	1972	1971
NET SALES	\$47,467	\$45,823
Costs, excluding expenses shown below.....	42,373	40,881
Operating Income, before undernoted items.....	5,094	4,942
Deduct:		
Depreciation.....	1,116	1,106
Interest on long term debt.....	63	87
Other interest.....	363	414
	1,542	1,607
OPERATING INCOME	3,552	3,335
Equity in net income of Mastico Industries Limited.....	101	122
Income before income taxes.....	3,653	3,457
Taxes on income.....	1,723	1,646
NET INCOME FOR THE YEAR	\$ 1,930	\$ 1,811
Earnings per common share after preferred dividends.....	\$ 5.14	\$ 4.80

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1972

(in thousands of dollars)

	1972	1971
RETAINED EARNINGS AT BEGINNING OF YEAR.....	\$ 9,462	\$ 8,792
Add:		
Net income for the year.....	1,930	1,811
Net adjustment resulting from accounting changes (note 1).....	457	—
	11,849	10,603
Deduct:		
Dividends—preferred shares.....	97	101
—common shares.....	1,140	1,040
	1,237	1,141
RETAINED EARNINGS AT END OF YEAR	\$10,612	\$ 9,462



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1972

(in thousands of dollars)

	1972	1971
CURRENT ASSETS		
Cash.....	\$ 7	\$ 8
Accounts receivable (note 2).....	5,265	4,717
Inventories (note 3).....	10,030	8,861
Prepaid expenses.....	302	287
	<u>15,604</u>	<u>13,873</u>
CURRENT LIABILITIES		
Bank Advances.....	1,842	816
Accounts payable and accrued liabilities (note 2).....	2,188	2,042
Taxes payable.....	568	832
Dividends payable.....	24	25
Advance from affiliated company.....	5,000	5,000
Long term debt payable within one year.....	234	215
	<u>9,856</u>	<u>8,930</u>
WORKING CAPITAL	<u>5,748</u>	<u>4,943</u>
SINKING FUND RE PREFERRED SHARES— government and industrial bonds at market values (cost \$120,141).....	<u>102</u>	<u>103</u>
INVESTMENTS—Shares in 50% owned company— Mastico Industries Limited—at equity value.....	<u>390</u>	<u>386</u>
FIXED ASSETS (note 4)	<u>22,611</u>	<u>22,215</u>
Less: Accumulated depreciation.....	<u>12,451</u>	<u>11,465</u>
	<u>10,160</u>	<u>10,750</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>16,400</u>	<u>16,182</u>
LONG TERM DEBT (notes 5 and 10)	<u>683</u>	<u>947</u>
DEFERRED INCOME TAXES (note 1)	<u>2,102</u>	<u>1,561</u>
	<u>2,785</u>	<u>2,508</u>
NET ASSETS (being Shareholders' equity)	<u>\$13,615</u>	<u>\$13,674</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 6).....	\$ 2,081	\$ 2,115
Retained earnings (notes 1 and 7).....	10,612	9,462
Excess of appraised value of fixed assets over cost (notes 1 and 4).....	922	2,097
TOTAL SHAREHOLDERS' EQUITY	<u>\$13,615</u>	<u>\$13,674</u>

On behalf of the Board:

J. G. Church, Director

I. A. MacDonald, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1972

(in thousands of dollars)

SOURCE OF FUNDS:	1972	1971
From operations—		
Net income for the year.....	\$1,930	\$1,811
Charges to income not requiring a current outlay of funds—		
Depreciation.....	1,116	1,106
Deferred income taxes.....	(161)	(336)
	<u>2,885</u>	<u>2,581</u>
APPLICATION OF FUNDS:		
Purchase of fixed assets (net of disposals).....	542	760
Purchase of preferred shares for cancellation.....	34	130
Dividends to shareholders.....	1,237	1,141
Reduction in long term debt.....	264	734
Sundry items (net).....	3	—
	<u>2,080</u>	<u>2,765</u>
Increase (decrease) in working capital.....	805	(184)
Working capital at beginning of year.....	4,943	5,127
WORKING CAPITAL AT END OF YEAR.....	<u>\$5,748</u>	<u>\$4,943</u>

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes in accounting practice explained in note 1 to the consolidated financial statements, with which changes we concur.

London, Canada
January 22, 1973
(except for note 10, which is as of March 15, 1973)

CLARKSON, GORDON & CO.
Chartered Accountants



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

NOTES TO CONSOLIDATED STATEMENTS

1. Accounting Changes:

At December 31, 1972 the Company adopted the practice of transferring from the appraisal excess account to consolidated retained earnings amounts equivalent to the depreciation provided on the excess of the appraised value of fixed assets over cost. Accordingly, a transfer of \$1,158,843 has been made from the appraisal excess account to consolidated retained earnings, representing amounts equivalent to depreciation provided on such excess in 1972 and prior years (less sundry charges). At the same time the Company has set up (by a charge to consolidated retained earnings) an additional provision of \$702,139 for deferred income taxes not previously recorded in respect of depreciation written on the excess of appraised value of fixed assets over their cost, which depreciation is not deductible for income tax purposes. The net adjustment of \$456,704 is reflected as a credit to consolidated retained earnings in 1972.

2. Accounts receivable and accounts payable:

Included in accounts receivable is an amount of \$387,597 owing from, and in accounts payable an amount of \$36,486 owing to affiliated companies. In 1971, the amounts were \$408,538 and \$2,284 respectively.

3. Inventories:

Inventories are valued at the lower of cost and net realizable value.

	1972	1971
Raw materials, goods in process and supplies	\$ 5,172,743	\$ 4,228,994
Finished goods	4,856,934	4,631,686
	<u>\$10,029,677</u>	<u>\$ 8,860,680</u>

4. Fixed assets:

Buildings and equipment are stated at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	1972	1971
Land and buildings	\$ 6,080,303	\$ 5,789,614
Machinery and equipment	16,530,855	16,426,029
	<u>\$22,611,158</u>	<u>\$22,215,643</u>

5. Long term debt:

	1972	1971
First mortgage bonds outstanding:		
Series A—5¼% sinking fund, due October 15, 1973	\$ 234,260	\$ 449,124
Series B—6% sinking fund, due June 15, 1977	683,000	713,000
	<u>917,260</u>	<u>1,162,124</u>
Less payable within one year	234,260	214,864
Total long term debt	<u>\$ 683,000</u>	<u>\$ 947,260</u>

The first mortgage bonds are secured by a first fixed and specific mortgage and first floating charge on the assets of the Company. Maturities and sinking fund requirements during the next five fiscal years are as follows: 1973—\$234,260; 1974—Nil; 1975—Nil; 1976—\$83,000; 1977—\$600,000.

6. Capital stock:

	Number of shares	
	1972	1971
Preferred cumulative, redeemable shares, par value \$50 each, issuable in series.		
Authorized	100,000	100,000
Less purchased for cancellation	5,494	4,813
	<u>94,506</u>	<u>95,187</u>

6. Capital Stock (cont'd):

	Number of shares		Amount	
	1972	1971	1972	1971
Issued and outstanding \$2.80 sinking fund cumulative preferred shares, 1953 series redeemable at \$51 per share.....	34,506	35,187	\$1,725,300	\$1,759,350
Common shares without par value				
Authorized.....	500,000	500,000		
Issued and outstanding.....	356,300	356,300	356,300	356,300
			<u>\$2,081,600</u>	<u>\$2,115,650</u>

7. Retained earnings:

Retained earnings include an amount of \$34,050 set aside as capital surplus in connection with the redemption of preferred shares as required by Section 62 of the Canada Corporations Act.

8. Long term leases:

Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases, the aggregate rental amounts to \$1,914,948. The maximum annual rental payable thereunder for the years 1973 to 1977 is \$149,603.

9. Statutory information:

(a) Remuneration of directors and officers

	1972	1971
Number of directors.....	6	5
Aggregate remuneration as directors.....	Nil	Nil
Number of officers.....	3	4
Aggregate remuneration as officers.....	\$142,364	\$189,648
Number of officers who are directors.....	3	3

(b) Classes of business

In the opinion of the directors the classes of business contributing in excess of 10% of gross sales were as follows:

	Amount		Percentage	
	1972	1971	1972	1971
Packaging.....	\$33,124,435	\$32,938,522	69.8%	71.9%
Automotive products.....	7,706,022	7,797,072	16.2	17.0
Other.....	6,636,519	5,087,113	14.0	11.1
	<u>\$47,466,976</u>	<u>\$45,822,707</u>	<u>100.0%</u>	<u>100.0%</u>

10. Subsequent Events:

On March 15, 1973 the Company entered into an agreement to sell to Wood Gundy Limited and McLeod, Young, Weir & Company Limited, as underwriters, \$8,000,000 8½% Sinking Fund Debentures Series A for an aggregate consideration of \$7,808,000 which, after deducting all estimated expenses of issue, will be reduced to \$7,758,000. Under the terms of the Trust Indenture these debentures will be secured by a floating charge on the assets of the Company subject to the prior charges securing the first mortgage bonds.

The Company has received supplementary letters patent dated February 20, 1973 reducing its authorized preferred shares to 94,506.

PACKAGING



Somerville Industries Limited have been leaders in packaging since 1886. Today, SIL total services encompass the entire paperboard and plastics packaging field. This includes material specification; surface design; construction of cartons; installation of machinery in the client's plant; a comprehensive training program for client employees in the efficient operation of the entire packaging system, as well as complete and continuing maintenance service by SIL experts.

Somerville is equipped to produce more types and sizes of folding cartons than anyone else in Canada. You may already be familiar with our Unipak carton for beer, our Pure-Pak carton for milk and other food products and our Durabox shoe carton in addition to the many other kinds of packaging we design and produce—ranging from cosmetics to hardware, food to lingerie.

Our own expertise is augmented on an international scale through world licensing arrangements in both packaging and package engineering. These arrangements allow Somerville to place the best packaging ideas in the world at the disposal of our clients, along with the most advanced equipment. And Somerville can do it all with a dependability no one else can match.

PLASTICS



Somerville Industries Limited is an innovative company and never more so than in the exciting field of modern plastics.

Somerville was actually the first packaging company to move into plastics. SIL people were thermo-forming plastic packaging components when this process was new to the world.

Today, Somerville Industries Limited is one of the largest custom thermo-forming and injection moulding companies in Canada. Somerville offers a unique complement of diverse talents in this field: from the designing of plastic parts and packages by SIL professional designers and tooling engineers, to the actual moulding of each finished item.

SIL has complete hot stamping and printing facilities.

Somerville's proprietary plastic products include "Impac" hot and cold cups, clear plastic "Classware" as well as disposable dishes and cutlery for the catering trade.

AUTOMOTIVE PRODUCTS



Somerville are specialists in high volume production, die cutting, forming and Fibre Reinforced Plastics moulding.

Our automotive experience covers some fifty years. That's almost the entire history of general automobile production in this modern world. Today Somerville makes innumerable parts for automobiles: door panels, heater and air conditioner housings and assemblies, sound and heat insulating panels, dash liners, fender extensions and many more.

A combination of engineering and production know-how with the most modern equipment, allows us to produce glass reinforced polyester mouldings to the most rigid specifications.

These facilities have led us to the solution of problems in other fields beyond the automotive industry so that today we are applying our S.M.C. and B.M.C. technology in the electrical, appliance and recreational equipment industries.

GAMES



Somerville Industries Limited makes and markets the widest range of games and puzzles in Canada.

We have been producing jigsaw puzzles, for example, for over forty years. It would be difficult to say just how many Snakes and Ladders, Checkers, Chess, Tiddly Winks and all those other well loved standbys SIL has produced and marketed in the past two decades.

We have innovations, too: relatively recent games such as "Battleship", "Don't Catch Cold", "Snoopy and the Red Baron" to mention a few. Then there's one of our all-time best sellers "Twister", as well as the games we produce and market under the Playskool, Girls World, Silly Putty and Crafts by Whiting labels.

MERCHANDISING SERVICES



Somerville's Merchandising Services Division is able to draw upon the manufacturing and technical skills of all the SIL Divisions for 100% "in house" control of your promotional needs.

The Merchandising Services Division can create and prepare marketing programs, promotions, contests, premiums, direct mail, P.O.P. displays, and exhibition booths—the entire package, from concept to execution.

The Division's creative team and production engineers, in direct contact with all other stages of production within the organization, can rationalize the creative, production and finishing factors within a tightly controlled framework, and budgetary limits established. This ensures maximum value from original artwork, materials and subsequent production and finishing processes.

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consolith Division**
865 Hodge Street, Montreal 379, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Automotive Products Division—Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Automotive Products Division—Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Division**
2744 Edna Street, Windsor, Ontario
- **Merchandising Services Division**
11 Lesmill Road, Don Mills, Ontario
- **Games Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)
- Truro: 545 Prince Street (P.O. Box 458)

Agents from coast to coast

